THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PNM - PNM Resources Inc 2015 Ongoing Earnings Guidance and Corporate Analyst Meeting

EVENT DATE/TIME: DECEMBER 15, 2014 / 4:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Chuck Eldred *PNM Resources, Inc. - EVP and CFO*

Gerard Ortiz *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

Jimmie Blotter *PNM Resources, Inc. - Director, Investor Relations*

Pat Vincent-Collawn *PNM Resources, Inc. - Chairman, President, CEO*

Ron Darnell *PNM Resources, Inc. - SVP for Public Policy*

CONFERENCE CALL PARTICIPANTS

Ali Agha *SunTrust Robinson Humphrey - Analyst*

Andy Levi *Avon Capital - Analyst*

Anthony Crowdell *Jefferies & Company - Analyst*

Brian Russo *Ladenburg Thalmann & Company Inc. - Analyst*

Chris Kovacs *Levin Capital Strategies - Analyst*

Ed Mashkovich *MetLife - Analyst*

Kit Konolige *Bloomberg intelligence - Analyst*

Mike Weinstein *UBS - Analyst*

Paul Fremont *Jefferies & Co. - Analyst*

Paul Patterson *Glenrock Associates - Analyst*

Paul Ridzon *KeyBanc Capital Markets - Analyst*

PRESENTATION

Jimmie Blotter - *PNM Resources, Inc. - Director, Investor Relations*

All right. Let's go ahead and get started. Good morning, everyone. Thank you for joining us for the 2014 PNM Resources Analyst Meeting. My name is Jimmie Blotter, for the few of you in the room who may not know me, and I am the Director of Investor Relations. Welcome.

We have a lot of information for you this morning. But before we get started, I want to go over a few logistics. First, everyone should have a copy of today's presentation. If you need a copy, please raise your hand, and we will deliver one to you. (Conference Instructions). And if you have any needs, please just let me or one of my team members know.

All right, let's go ahead and turn to slide 3 in your presentation. We have an excellent representation from our management team here with us today, and you already know many of them. I will ask each one, with the exception of our four speakers, to please raise your hand when I come to your name. I will start with our Chairman, President, and CEO, Pat Vincent-Collawn; and Chuck Eldred, our Executive Vice President and CFO; Ron Talbot, our Senior Vice President and Chief Operating Officer.

In front here we have Ron Darnell, our Senior Vice President of Public Policy; Patrick Apodaca, Senior Vice President and General Counsel; and Gerard Ortiz, Vice President of PNM Regulatory Affairs. He is here to talk about one of the most important topics of the day, the General Rate Case that we filed last week; Terry Horn, Vice President and Treasurer and my boss. We also have with us Lisa Eden, all the way at the back, Executive Director of Financial Planning and Business Analysis. She is familiar to most of you from her time as Assistant Treasurer and Director of Investor Relations.

And speaking of Investor Relations, we have our newest team member, Lisa Goodman, who is all the way at the back of the room. She will be controlling our presentation for us today. Many of you had the opportunity to meet her at EEI about a month ago. And Cathy Martinez greeted you at the door. Cathy has the pleasure of being the primary contact for our retail shareholders. I owe many thanks to both of these ladies for the great work that they did in pulling this event together. Thank you.

Moving to slide 4, today we will be talking about how we will continue the momentum that we have had over the past few years. Pat will share some information about the strategic direction of the Company, including our mission to create enduring value for customers, communities, and shareholders. And as I mentioned earlier, Gerard will be talking about the PNM General Rate Case that we filed on Thursday, particularly the various changes to rate design that we are requesting.

With all that is on our regulatory agenda, including the rate case, Ron will spend some time walking us through our stakeholder engagement strategy, and will talk about our new Power for Progress website. And just before lunch, we will pause for Q&A that should be focused on the presentations from this morning. Pat will moderate the Q&A.

And since our meeting today is being webcast, I will ask that if you have a question, please raise your hand. I will carry a microphone to you. And prior to asking your question, please state your name for the listeners online.

We are planning to serve lunch at about 12:15, and we will give you a 45 minute break for it. I strongly encourage you to take that time to engage not only our speakers but the other members of our management team that are here today.

And following lunch, Chuck will take us through 2015 guidance, our earnings growth potential, and review the dividend increase that our Board of Directors approved last week. We will host a final Q&A to take both your guidance-related questions and any other questions that you may have. We will follow the same format as the first round of Q&A.

So please take a moment to read slide 5. As you would expect, all forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995. You are cautioned that all forward-looking statements are based upon current expectations and estimates, and we are not obligated to update these statements. And please be sure to read our SEC filings, including those made on Forms 10-K, 10-Q, and 8-K for our risk factors.

Additionally, we will be making reference to non-GAAP financial measures today. Please see our website, pnmresources.com, for reconciliations of those measurements.

And by the way, have you seen pnmresources.com lately? We deployed a redesigned website last week that is a fairly significant improvement over what we had before. Please take some time to check it out. In fact, during the break and following the meeting, Lisa Goodman will be at the back of the room, and she would be more than happy to give you a brief tour of either pnmresources.com or the Power for Progress website.

And with that, please welcome our CEO, Pat Vincent-Collawn.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Thanks, Jimmie. And, welcome, everyone that's here today, and welcome to you that are on the webcast. I'm very glad you joined us today to learn more about what's going on at PNM Resources. We've been very busy since our last Analyst Day in 2012, and I'm excited to bring you up to date on what's happened since then, and our plans going forward.

If we move to slide 8, if you remember in 2012, we discussed how we had implemented our plan to exit the competitive business in Texas and focus on being a pure play regulated utility with PNM and TNMP. Since then we have worked to strengthen the Company's financial position with three primary strategic goals: first, earning the authorized return on our regulated businesses. PNM accomplished this in 2012 and 2013. And TNMP continues to earn its allowed ROE, benefiting from that very strong economy in Texas. The diversity in these two companies and their two locations provide a good balance for PNM Resources.

Our second strategic goal: improving our Company's credit ratings. We have received three upgrades in the past two years, two from Standard & Poor's and one from Moody's. All three entities -- the parent company and the two utilities -- are rated investment-grade, and the Company's outlook from both agencies is positive.

And our third strategic goal is providing top-quartile return. That Company continues to deliver consistent earnings. And, as you know, last week the Board of Directors increased the dividend for the fourth time in three years. This year the increase was 8%, so we remain on track to deliver our goal of 10% to 13% total return by 2016.

There are a lot of moving parts to our business plan, and they involve every aspect of our Company: regulatory, stakeholder relationships, and communication. And we're going to highlight those throughout the presentation today so you can see how we are able to execute our strategy.

If we look now on slide 9, we're working to build our forward momentum and implement our vision, to create enduring value for our customers, our communities, and our shareholders. And that's really the core of what we do every day as a utility.

We are continuing to build a highly efficient, customer-focused organization, and strengthening our relationships with our customers to better understand their needs and earn their trust, their respect, and partnering with them to find solutions.

We're working to improve our regulatory outcomes, both on the state and the federal levels, and we've achieved a lot of success towards meeting this goal. Our settlement on the San Juan Generating Station received final approval from the EPA, and we reached a settlement with many of the key participants in that case. Hearings on this will be in front of the New Mexico Commission starting on January 5th.

Beyond steps like San Juan, we're taking steps to modernize our pricing and rate design to better reflect the way energy is produced and consumed in today's day and age. We want to make sure our fixed costs are recovered in a timely way.

We're taking on some of this in our next rate case that we've filed. And Gerard Ortiz, our Vice President of Regulatory; and Ron Darnell, our Senior Vice President of Public Policy, are going to go into more detail about these rate design questions.

And, of course, we're continuing to invest in our business. 92% of what is in that rate case is based on investments in infrastructure to maintain reliability and move towards a more diverse, cleaner generation portfolio. Only a very small portion of our filing is for operating and maintenance expenses. We've managed to hold those virtually flat since our last rate case. It was a 0.2% increase in O&M per year, and that is something that we're very proud of.

If we move to slide 10, we're working across our Company to create a customer-focused organization. Putting a customer first is something we talk about every day in every department, and I think you see that reflected in our good regulatory outcomes. We understand that the best thing to serve customers is providing reliable and affordable power. If you do surveys, those are the two things customers want most. But we need to enhance the customer experience beyond that.

So, just as we relaunched pnmresources.com, we relaunched PNM.com earlier this year. It's a much easier way for customers to interact with us, and those efforts have helped boost our customer satisfaction ratings. As a matter of fact, that website got us the highest in the midsized utilities on its redesign for customer satisfaction.

We do an annual image survey that's conducted by a group called Research & Polling, which is the premier polling company in New Mexico, and it shows that customer impressions of us are solid and improving. We have the highest number of people that rate us a 10, with 1 in 10 being the highest, that we've seen in our history, and we've been doing this poll for a significant number of years.

Our customer satisfaction numbers are the highest that they have been since 2011. Customers say that the most important thing to them is reliability. Affordability is number two; reliability is number one. And 9 out of 10 customers say we're doing a very good job of providing them reliable electricity consistently.

Affordability is important to all customers, but especially in a poor state like New Mexico. And every time we file a rate case, we keep that in mind. It's one of the reasons we work so hard, for example, to keep our operating and maintenance expenses down. So, PNM's rates compare very favorably, as you see in this chart, on a national basis, even when we factor in the proposed increase. And here we take the average customer bill and divide it by the average income, which in New Mexico is very low.

I'm pleased at the fact also that, in addition to those customer satisfaction numbers on JD Power and our own surveys, we're seeing our corporate citizenship numbers improved over the past years. And I think that this really reflects the strong engagement that we have with our communities. Utilities are always great corporate citizens, but sometimes it's hard to get the credit for the actions that you take.

If we move to slide 11. As I said, customers are our top priority, but we understand the importance of building and strengthening relationships and trust across a broad and diverse group of stakeholders. And this is an important part of our plan, and Ron will spend a fair amount of time talking about that.

We like to say, our currency is credibility. And we need to earn credibility and trust through communication and engagement. By acting as a reliable and trusted source of information, we offer our regulators, advocates, customers, and legislators truthful and consistent information. Sometimes folks don't like to hear the truth. But you're always better off, at the end of the day, if we tell them that.

At PNM and TNMP, we are both actively engaging with our legislators and our regulatories. And I think you've seen that, because both utilities have been consistent in achieving good regulatory outcomes. We worked with our governor, the New Mexico Environment Department, and EPA when it came to our San Juan Generating Station plan. And as the plan moved forward, we engaged with many of the intervenors in our case and came to a settlement with them, which, if it's approved, will deliver a solid outcome for our customers, the environment, and our shareholders.

Every group on this list is important to our continued success, and we work hard to earn their trust and respect. And this is especially true when it comes to our employees, who are our most valuable resource. We utilize all of our communications channels to reach out to them so that they are informed and can be ambassadors for our Company in the communities we serve.

I want to turn to slide 12. Just give you a quick update on the BART settlement: we've come a long day with regards to San Juan and BART since our last Analyst Day two years ago. The settlement is joined by a broad and diverse group of stakeholders, including the Commission's staff, the New Mexico Attorney General's office, as well as business groups and some environmental advocacy groups. So the settlement proposes recovery of 50% of the undepreciated value of San Juan Units 2 and 3. And at the end of 2017, that is expected to be $115.5 million.

The settlement also proposes the approval of the SNCR technology on San Juan Units 1 and 4; and the authorization of CCNs to bring Palo Verde 3 into rate base, at the valuation of $1,650 a kilowatt hour; and the acquisition of 132 megawatts of San Juan Unit 4, at a transfer value of $26 million.

In addition, we're proposing to replace some of the retiring power with a new, 40-megawatt, utility-owned solar generating plant. That's already been approved in our renewable resource filing, but the recovery of that will be in base rates.

We also will propose to add a 177-megawatt gas peaker at the San Juan site, and will ask for approval for that at a later date.

The next step in the case is December 19th, when the rebuttal testimony is due. And then as I mentioned, the hearings in front of a hearing examiner start on January 5th. And we expect the Commission to act in the first quarter of 2015.

If I move to slide 13. Beyond San Juan and BART, we are executing our plan to continue to create positive regulatory outcomes, and to create a regulatory environment that more accurately reflects the evolving conditions in our industry and the changing needs of our customers. The environment must recognize the need for timely cost recovery and the impact on utilities of new technologies and regulatory changes.

In New Mexico, our rate structure has not had a major revision in more than 20 years. So, just as we continually modernize and update our system, we need to update and modernize our rate design. So, in this case, we are being proactive, and addressing conditions such as increased penetration of customer-owned solar-distributed generation. We need to advance the discussion about the impact on the system, and how we recover those associated costs before it becomes a problem.

In this case, we are also attempting to offset declining electricity use, whether it's caused by our energy efficiency programs, efficiency standards in appliances, or through economic conditions. And Gerard will talk about the decoupling mechanism that we've proposed in our case.

We've also included other changes that together are going to help support us getting a more predictable regulatory revenue stream, which is better for customers as we can continue to invest in our system.These proposed rate changes will give customers more accurate pricing signals, which is important to us and to them. We've also designed our proposed rate structure to help economic development in New Mexico.

For those of you that listen to our earnings calls, you know we've seen a little bit of growth in New Mexico, but the economic recovery that is in the United States is slow to catch on in New Mexico. So we want the state to be able to retain and attract new businesses, and we have proposed something in our rate design for that.

We believe our proposals more equitably allocate costs among customers, create a more investment-friendly environment, and more accurately reflect the way energy is produced and consumed today.

So I'm going to turn it over now to Gerard Ortiz, who is going to provide more detail on the filing. And he will be followed by Ron Darnell, who will talk about how this stepped-up customer engagement program supports our Company success. And then, as Jimmie said, we'll have plenty of time for Q&A before lunch.

So, right now, I'm going to turn it over to Gerard.

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

Good morning. I'm going to walk you through the General Rate Case that we filed last week and discuss the reasons behind our requests. Let's start with an overview of the filing on slide 15. The proposed rate increase is $107 million. It is based upon a 2016 future test period, and we filed for a return on equity of 10.5%. We do not take filing a rate case lightly. And, as Pat emphasized, especially given the state of New Mexico's economy and its ranking as one of the poorest states, we do all that we can to not overburden our customers.

The requested rate increase, coupled with other changes that are scheduled to take effect January 1, 2015, will result in an average bill impact of 7.7% across all of our rate classes.

When you think about the components of a rate case, you can boil it down to three categories: rate base, operations, and rate design. The items in rate base and operations are less controversial. The largest capital additions -- for example, the additional 40 megawatts of solar that will be built in 2015, the La Luz gas peaker, and the purchase of the Rio Bravo Generating Station -- have already been approved by the Commission.

We included our projected 2016 O&M in the filing. We have managed our business very carefully since our last rate case, and we will also have the benefit of the half-price Palo Verde lease payments in our test period. Collectively, O&M expenses are not a driver of the rate request, and actually make the increase smaller than it otherwise would have been.

For all of you who have been following PNM over the past couple of years, you are well aware that our load growth has been weak. This rate case will allow us to reset our energy sales upon which rates will be based at a level that better matches our recent experience. We are proposing some comprehensive changes to rate design, and expect this to draw a lot of attention from the parties. Like most other utilities, our rate design is based on the premise of load growth.

However, our customers' energy use is declining. This may be caused by energy efficiency programs which we sponsor, or the continued improvements in efficiency that make everything from your refrigerator to your smartphone, not to mention your LED light bulbs, use less electricity.

We are also grappling with how to integrate a greater presence of distributed generation -- in our case, primarily solar panels -- into the utility system, while maintaining reliability and ensuring that each customer is paying their fair share. Consequently, we, like many other utilities across the country, are proposing to restructure our rates, and pursuing rate mechanisms that will improve our ability to recover fixed cost and ensure an appropriate revenue stream to run our business.

Let's begin by taking a closer look at the proposed rate increase on slide 16. More than 90% of the $107 million is attributable to rate base, which I will discuss in more detail on the next slide. The decline in energy sales from 2010 to 2016 contributes $22 million to the revenue shortfall, but over half of this has been offset by fuel and other savings.

There are some items listed here that net to a small decrease, including the $17 million in savings for the retail jurisdiction's portion of the 50% reduction of Palo Verde Unit 1 and 2 lease payments; the reallocation of cost to retail customers that reflects the expiration of the Gallup contract; and transferring the recovery of fuel handling charges to the fuel clause.

All of these components add up to $114 million. Offsetting this is a projected fuel reduction, which is primarily driven by the investments we are making on the rate base side in renewable energy resources. Therefore, the resulting revenue increase comes to $107 million. On the next slide, I will walk you through the rate base additions.

As you can see on slide 17, the primary driver for our rate request is increasing rate base. The capital additions are usually less controversial, and many have already been approved by the Commission. Also included is the SNCR equipment, which is currently in front of the Commission; the Palo Verde Unit 2 leases that we are purchasing in January 2016; and routine transmission and distribution investments.

We performed a depreciation study in 2013, as required by Commission rules. And we are proposing to implement the new, higher rates in 2016. In total, we project that we will have added $585 million to rate base by 2016 compared to the rate base in 2010 when current rates were established.

On slide 18 you can see that our decline in load is accounting for $22 million of the revenue requirement deficiency. Our projected 2016 sales are 4% lower than they were when rates were last set in 2010. The primary factors affecting energy sales are the continued soft economy in our service territory and declining use per customer.

While it's true that much of the country has begun to recover from the economic downturn, New Mexico continues to struggle, and our service territory in particular has yet to rebound. Sales to some of our largest customers have also declined. Compounding this is the fact that we have fewer larger customers today than we did in 2010. Sales to our large power customers accounted to 17% of our system sales in the 2010 illustrative cost of service. The corresponding number is 13.6% in our test period.

In the residential market, use per customer is down from 2010. A significant factor in this decline is the energy efficiency programs that we have implemented. As you can see on this slide, our residential monthly use per customer in 2016 would have grown by 2%, absent our energy efficiency programs. Instead, it has declined by 5%. Given New Mexico's weak economy, there has not been sufficient customer growth to offset this declining use per customer.

Turning our attention to rate design on slide 19, we are proposing some overall changes to our current rate design that will address fixed cost recovery, better allocate costs among rate classes, and support economic development efforts in New Mexico. The reallocation of cost will result in rates that better reflect how our various customer classes use the electric system. Simply put, this proposal means that not all customers will see the same level of increase.

Today, residential customers have the highest subsidies; therefore, they will see a higher-than-average increase. Over 70% of our costs are fixed. And for the residential and small power classes, it is as high as 90%, yet we currently only recover between 20% and 30% of those costs in fixed charges across all of our rate classes.

This issue is more pronounced in our residential and small power classes, where we only collect 10% of their fixed cost responsibility through fixed charges. As part of our structural changes, therefore, we will request an increase to both monthly customer charges and demand charges.

While our rates continue to be competitive, we have heard from companies considering New Mexico that many other utilities can offer economic development discounts to new customers. In an effort to support New Mexico's economic development efforts, we are proposing an economic development tariff that will offer a five-year discount to new customers locating in New Mexico, and to existing customers expanding their operations.

In addition, we are proposing specific mechanisms to address the increasing penetration of customer-sited distributed generation, primarily PV systems, and to address the disincentive associated with energy efficiency. All of these proposals will contribute to a more predictable revenue stream, and likely will be one of the more controversial aspects of the case.

With respect to distributed generation, we proposed a new interconnection fee to insure that DG customers pay the fixed cost associated with their use of the grid. Customers with DG systems today receive a bill credit far in excess of the cost avoided by PNM. Today, a customer saves between $0.09 and $0.15 per kWH, yet PNM saves less than $0.03. Sooner or later, non-DG customers will pick up the extra cost.

The estimated cost of providing grid services for customers with distributed energy systems is about $56 per month. The proposed fee is $6 per kilowatt month, and will be based on installed capacity. This will amount to a charge of between $18 and $24 per month for most residential customers with a PV system. We view this as a measured but important first step toward eliminating the net metering subsidy for DG customers. This rate will reduce the net metering benefit by approximately 30%.

We've also proposed the elimination of the banking of excess energy production by small DG systems. Currently, customers with a PV system are able to carry forward or bank excess energy produced in a given month to offset their net energy consumption in a subsequent month. Much of the excess energy is produced in shoulder months when energy is less valuable. This banking allows customers to then receive a bill credit for the banked energy in summer months when energy is more valuable.

If approved, PNM will make monthly payments to these customers for any excess monthly energy production. PNM will then acquire the associated renewable energy certificates for no additional cost. These proposals will only apply to new DG customers.

Energy efficiency programs are cost effective and offer great potential customer benefits, but those benefits it will only come if they are matched by regulatory structures that line up customer and utility incentives. To address this, we are also proposing a four-year decoupling pilot program which we are calling a revenue balancing account that will remove the disincentives associated with energy efficiency programs.

The revenue balancing account will establish a set total amount of fixed costs to be recovered through energy charges from residential and small power customers. It will only apply to these classes because the vast majority of their fixed cost responsibility is recovered through variable charges.

At the end of each year, PNM will look at the energy sales from each of these two classes. If energy sales are higher in a given year than necessary to recover the total amount of fixed cost, PNM will have over-recovered its fixed cost and will refund the overage to customers in the following year.

Conversely, if sales are lower than necessary to adequately recover fixed costs from these classes, PNM will have under-recovered its fixed costs, and will collect the underage from each of these classes over the course of the following year.

Under the proposal, we will not weather-normalize actual sales when calculating the adjustment, and we will retain the benefit from customer growth. We recognize that the state has not effectively addressed energy efficiency disincentives, and this will open the door to that discussion.

Slide 20 displays the customer bill impact as of January 1, 2016. As I mentioned earlier, the proposed reallocation of costs among rate classes better reflects how each of our classes use our system. With the delicate economy in New Mexico, one of the challenges that we had in filing this case is ensuring that the industries we do have in the state will not be harmed by the rate increase.

Slide 20 presents the affordability chart with which you are familiar, and that Pat showed in her presentation. Even when comparing our projected 2016 rate to the rates in effect across the country in 2013, PNM is well below the United States average. By the time that our rates are effective in 2016, we would expect to be in an even better position on this chart.

I will wrap up by walking you through the expected timeline for this case. We have allowed adequate time for the Commission to consider and act upon the application in time for a January 2016 effective date.

The first step in the process will be for the Commission to appoint a hearing examiner, who will then establish a procedural scheduler for the case. I expect to have the schedule in the next six weeks or so. As is our practice, we anticipate that we will engage in settlement discussions to resolve as many of the issues as possible. I would expect these discussions to begin shortly after staff and intervenors file their direct testimonies. A settlement would be most likely to occur sometime before the hearings begin.

I've provided a lot of information here, and I am sure that you have questions. Before we open up for Q&A, I'm going to turn the presentation over to Ron Darnell to tie this into our stakeholder engagement strategy. And then we will take your questions before lunch. Thank you for your time and attention. Ron?

Ron Darnell - *PNM Resources, Inc. - SVP for Public Policy*

Well, thanks, Gerard. It's great to be here with you this morning. Good morning, and we appreciate the fact that we got a little New Mexico weather out there. So that's a good thing.

I start with slide 24. As you certainly can see from Pat's and Gerard's presentation, we have accomplished a lot, but we still have a lot on our plate. We are excited and we are definitely up for the challenge.

As Pat mentioned, our currency is our credibility and we have worked diligently to increase the value of that currency. We are striving to improve customer satisfaction, build strong relationships with our stakeholders, effectively communicate both internally and externally, and to make well-constructed, high-quality regulatory filings.

As Pat discussed, we are committed to maintaining productive relationships with regulators. And we have been successful in achieving a number of constructive outcomes both in Texas and in New Mexico.

We have an aggressive agenda for the next several years and beyond. There are four key elements in the near term. First is gaining the New Mexico public regulation commission approval for our BART case. That hearing is scheduled to begin January 5, and we hope to have final resolution in the first quarter of 2015.

Next, the 2016 general rate case and rate structure changes we filed last week. As Gerard explained, that process will take much of 2015. We are in settlement discussions for the FERC formula rate case; and finally, TNMP will continue to make timely TCOS filings in Texas. The most recent was approved and went into effect in September.

And going forward, we plan to file PNM's next rate case in late 2016. The case will include the transmission -- excuse me, the case will include the remaining costs associated with BART and the revised the state implementation plan, among other items. We will likely file TNMP's next general rate case in 2017 or 2018.

Now let's move to slide 25. I'm sure you're picking up on a theme throughout our presentations today that we do everything with a customer focus. We believe that the best way to continue the Company's successful performance is by delivering the best possible customer experience. As I'm sure you know, data indicates that the companies with the best customer service scores deliver better financial results. It makes sense.

In addition to the outreach and relationship building we have discussed, we have taken numerous steps to better serve and respond to our customers. Most effective has been the new pnm.com.

In the July/August JD Power survey period, our site was ranked at the top of the benchmark group for online customer service. Our benchmark group includes mid-sized IOUs across the country. During the survey period, our customers ranked their online experience higher than many other very well performing utilities.

Another indicator of customer opinion is a number of merited complaints made to the New Mexico Public Commission. For PNM, those numbers have been improving, and in 2014 we recorded the lowest number of merited complaints in five years. In fact, in 2014 we've seen half the number of merited complaints we saw from last year. Overall customer satisfaction scores are improving, and we will continue to make this a priority.

Now let's turn to slide 26. We have redirected and reenergized our approach to stakeholder relationships. We started with our employees, communicating our plans and our actions and empowering them to become advocates. In many cases, they're our best ambassadors. They're in the community; they volunteer alongside their friends and neighbors; and they are influencers within their circles.

We have also made it a priority to engage with our key customer accounts with executive-level involvement. We want them to know we're there for them and will communicate with them consistently, and not just when there's a problem. We're using these tactics and increased traditional communication to inform and educate stakeholders about our business and about our key projects, such as BART.

We've included another important group in the outreach efforts: elected officials, including our state legislators. In addition to regular face-to-face meetings, we help them learn about our business with regular PNM boot camps, which they tell us they appreciate.

We want our customers to know they are a priority, from the CEO all the way through the organization. They can trust us to be open, honest, and proactive.

Engagement with stakeholders, regulators, or within the industry is also a priority at TNMP. Neil Walker, President of TNMP, was very involved in his role with the Association of Electric Companies of Texas in supporting the passage of legislation that eliminated consolidated tax savings adjustment. This fix provides for the timely recovery of the full cost of service without unnecessary tax provisions.

TNMP has worked diligently to build strong relationships with the large power users it serves, including several major oil and gas and chemical companies located on the Gulf Coast. Our employees have collaborated with those companies to solve problems and strengthen reliability, and in the process have built a solid foundation of trust.

Now let's move to slide 27. We are executing a comprehensive communication strategy that is customer-focused and targeted at the community level. Our community representatives, account management team executives, and our employees understand the mission and the focus. We are leveraging all of our research to understand the needs and wants unique to each community in our service territory, allowing us to target messaging directly to specific customer segments.

The focus, of course, is the customer. And the goals are to achieve constructive outcomes on the key Company initiatives and regulatory filings and build on our financial success. We now have four community managers located throughout our service territory. They are responsible for connecting with local stakeholders, including elected officials and other key people and groups. PNM also has a low-income effort, and we meet regularly with advocates to solve problems and look for new opportunities to help the less fortunate in our communities.

We're using our traditional communications channels -- pnm.com, email, direct mail, advertising, community engagement -- to reach our customers and key stakeholders, but we've kicked it up a notch. Because we're taking on so many things at once, it would be impossible to effectively address each action individually. So we are pulling them all together under the umbrella of Power for Progress.

This is designed to clearly show that PNM has a strong plan to manage all that is happening and is helping build a bright energy future for New Mexico. Power for Progress describes the reasons PNM is taking all of these important actions. They all support the goals of balancing keeping the lights on, keeping prices affordable, and protecting the environment -- always with the customer as our primary focus. We've created a Power for Progress website that clearly explains what the Company is doing and why and all of the things that we do for the communities we serve and the environment.

As part of our ongoing research, we recently performed focus groups in Albuquerque and Santa Fe. Like most utilities, our customers aren't aware of all the good work we do for our communities and for the environment, but they are pleased when they find out. The website is an excellent way to tell our story.

One of our goals is to put a face to the Company by using employees in our messaging. We've done that in our commercials, and customers respond favorably. We've moved on to the next phase of that process, which features collaboration between our employees and customers.

These spots promote our message of openness and engagement, which is: talk to us. We are sharing employee and stakeholder stories in a personal way on the new microsite. We've created a specific social media strategy that follows the themes we've been discussing in bite-size servings appropriate for the medium. We directly engage with environmental advocates by hosting quarterly events. We also host regular community events in Santa Fe where the majority of the groups with divergent views are located.

It's critically important to keep the lines of communication open and to seek opportunities to find common ground. Overall, we want to help generate balanced media coverage and to mitigate or minimize opposition rhetoric by providing the facts and refuting misinformation.

Now let's move to slide 28. One of the most critical components of our stakeholder engagement effort is being responsive to regulatory staff and to intervenors such as environmental advocates, the state attorney general's office, and others. We are focused on creating filings that are comprehensive, accurate, and effective. As part of that process, we maintain a constant dialogue with regulatory staff and intervenors to preview filings and discuss concepts.

Whenever possible, it is really important not to surprise these groups. We also work diligently to manage the discovery process, which is extremely time-consuming and resource-intensive. In a big case it's not unusual for us to answer 1,500 or more questions within the required 15-day time frame.

Being timely, being accurate, and being collaborative are important when it comes to reaching constructive settlements. In Texas, where the state has implemented several mechanisms that allow utilities to more timely recover costs, TNMP will continue to maximize the filing of interim transmission cost of service cases, known as TCOS.

And finally, let's move to slide 29. We've come full circle back to our main message today: that going forward, we will build on the momentum we have created through the past several years. Thanks again for this opportunity. And with that, I will turn things over to Pat for Q&A.

QUESTIONS AND ANSWERS

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Thank you, Gerard and Ron. And as Jimmie mentioned earlier, we'd like to focus the questions on this morning's presentation. And we'll have time for questions this afternoon on guidance and earnings power for Chuck.

Jimmie will bring you the mic. And we'd ask for those of you -- because there's people on the Web -- that you state your name and your question clearly into the microphone. So with that, I'll start with questions. And I apologize, I'm back and forth between glasses today.

Brian Russo - *Ladenburg Thalmann & Company Inc. - Analyst*

Brian Russo, Ladenburg Thalmann. Could you talk about the solar penetration rates currently? What's kind of assumed in the 2016 rate case filing? And also, how do the demographics of your service territory kind of impact that penetration?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Sure, Brian. Right now we have about 4,400 DG solar sites. It's about 0.5% of our revenue, Gerard, for 2016?

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

Perhaps a little more. Between 0.5% and 1.0%.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Okay, between 0.5% and 1.0%. I think a lot of you know we haven't seen the penetration of solar DG in our service territory as high as others, because our customers in general aren't that wealthy. So we haven't seen some of the companies with leasing models come into our state, because we don't have high average credit scores.

We also don't have very high bills, as you saw. The average bill is about $75, $76 a month. We also don't have a real steep inclining block rate structure, because the solar really shaves off the peak. So we haven't seen that much solar penetration, which is one of the reasons why we're looking at doing this now. Because an issue that is very important to people in New Mexico is the subsidization issue. And obviously with a lot of less wealthy customers, the folks that have solar tend to be wealthier. And so they are being subsidized.

That said, we know this is going to be an emotional issue. You all saw what happened in Arizona, and so a lot of the proactive work that Ron is doing on Power for Progress in communication is so that we make sure we get our side of the story out quickly.

Brian Russo - *Ladenburg Thalmann & Company Inc. - Analyst*

Okay, my second question is: what's the equity ratio that PNM Electric filed for? And is there any kind of imputed debt assumption with short-term debt at the parent?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

No, the short-term debt is not included in rates, so there's no assumption on that. It's just really the long-term, weighted average cost of capital. So the filing was like 49.6%, so the average is 50% equity ratio is what we would expect.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Ali, and then over there.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Ali Agha at SunTrust. On the rate case filing, in total -- and I think in the presentation, you folks alluded to some of the controversial aspects -- but could you give us a sense, both from the numbers of the $107 million; and then the qualitative side, the decoupling or the solar fee, where do you see the biggest pushback in terms of controversy, or -- as you go through the process?

And how much influence do you think this case will have on the fact that you know that in two years you're coming back to file another case? There's another rate increase coming.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

I'll kind of take the policy part of that question and let Gerard talk about the controversial pieces in the numbers. I think in terms of your last question, everyone knows that there's a case coming in 2018; but a lot of that is the BART filing, and everybody knows what's already in that. So when we work with staff and intervenors, they will kind of take that big picture into account.

THOMSON REUTERS

And I think that staff and intervenors understand that what is in this case is, as Gerard said, the infrastructure. And because we've managed to hold our O&M flat, they understand we're doing everything we can, and that we need to invest in the system.

I think the two pieces that are going to be probably the most controversial on a rate design policy side is going to be the solar DG system -- and, again, not because we have a lot of it in the state, but that's where you tend to see out-of-state folks oftentimes coming in. And you tend to see the solar installers kind of get concerned about that. And because green jobs have been one of the bright spots in the economy, they'll get some traction on that. But again, we take it back to the subsidization issue.

The other thing that's going to get some pushback is decoupling. And that's because if you look at our water business in the major part of the state, Albuquerque and Bernalillo County. They have done a very good job of getting people in the city of Albuquerque and Bernalillo County to conserve water, but they have had rate increases because of that.

And so people say, gosh, you asked us to conserve, and now you're raising our rates. Well, the theory is your bills are lower because you're losing less water, but people sometimes have a hard time coming to grips with -- wait -- You asked us to use less, and now you're going to charge us more on a kilowatt-hour basis?

And the minute we talk about decoupling, they bring up the Water Utility Authority. I think probably one of the good things for us is the water utility has had a fair amount of water main breaks lately, and people understand it's because they need that money to invest in their infrastructure -- that either -- when you're conserving, you are still a very high fixed-cost business. And one of the things where we talked about with the editorial boards at the newspapers and we're going to be talking about publicly is the nature of our business in terms of the high fixed costs. Because about three-quarters, on an average, of our business is fixed costs. So it doesn't change. And I'll let you talk about the rate base element.

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

And I thought that that carry -- covered it very well. The other thing in terms of rate design that could get challenged has to do with the cost reallocation among customer classes, because the residential class will see a higher-than-average increase.

In terms of the rate base elements, I think it's very solid. I suppose that some of the environmentalists will raise some issues related to the SNCRs, but no one has opposed retiring two units in the current case. And if we are going to retire those two units, the SNCRs must be installed on units one and four at San Juan. So I think they're very solid.

I'm not concerned about most of the rate base issues. I suppose someone could try and challenge the Palo Verde valuation, but we have a really good story there. There's a solid precedent in terms of what other previous lease purchases have come in at. We also have the benefit of a operating license extension on Palo Verde. So I think that we're in a good position to defend that.

Ed Mashkovich - *MetLife - Analyst*

Ed Mashkovich, MetLife. A quick question regarding the $6 kilowatt DGP. Is that the only component of the fixed cost recovery you guys are working on in the filing, or is there any other components?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Gerard?

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

No, it's not. We are also proposing to increase our customer and demand charges. The biggest improvement will be in the residential class, where we are proposing to increase our monthly customer charge from $5.00 a month to $12.80 per month. And on top of that, you have the DG charge. And so you can see that we are trying to make a lot of progress in terms of better lining up our fixed cost recovery with the fixed charges.

Now, the other thing that we are doing is we're going to increase our demand charges for those classes to which a demand charge applies. What we are going to achieve with many of these classes is we will be recovering nearly 70% of the fixed charges that are allocable to that rate class through either customer charges or demand charges.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

There's two things on that I want to add is that higher-load-factor industrial customers like this, because they'll be better off under this scheme. Because they've got really good load factors, and they have already told us that they'd like to help us in this case, because they understand we're trying to support the manufacturers and the industrial customers and will help us recruit. There's also a great exhibit in Stella's testimony on fixed charges.

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

Yes.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Right now, PNM has some of the lowest fixed customer charges on the residential basis in the state. I think the City of Farmington and one other co-op has lesser charges. Both investor-owned utilities, Southwestern Public Service and El Paso Electric have higher customer charges.

And if you look at all the co-ops -- and we have a lot of small co-ops in our state -- their customer charges are all in about the $20 range. Obviously, it's a lot easier for them when they are governed by a self-governing Board, but their fixed charges are significantly higher. So what we are asking for is not out of line with what's already going on in the state. And I'm sorry, you had a follow-up question?

Ed Mashkovich - *MetLife - Analyst*

Similar to the filing, regarding -- I don't know if you guys hit on it -- the renewable rider, what exactly is into that?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Okay. Gerard?

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

The renewable rider recovers all of our RPS compliance costs. There's one small exception, which is the New Mexico Wind Energy Center PPA. But we recover that through the fuel clause, and that was established prior to really the RPS requirement even taking effect.

But we do recover all of our RPS compliance costs through the renewable rider. That includes the PPA for the Red Mesa wind farm that begins in January 2015. It includes all of the solar facilities that we have constructed up through the end of this year, and it also includes all of the REC purchases we make from customers with customer-sited PV systems.

Ed Mashkovich - *MetLife - Analyst*

Thank you.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Anyone else?

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Paul Ridzon, KeyBanc. Has there been -- I know it's early. What's the initial reaction been in the press, or anything? I think that headline number on residential is almost 12% might draw some -- get some attention.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

We had two articles in the newspaper, one in The Santa Fe New Mexican and one in the Albuquerque Journal. And we did editorial boards the day of the filing with both newspapers.

They were both, I think, very factual and balanced. The headline is the 12% increase. Unfortunately, the net 7.7% was a little buried further down. So that means we have to communicate better on that. I think the nice thing about the Water Utility Authority decoupling is they understand decoupling and the need for infrastructure investment in the newspapers.

I think the thing that they will pick up on is -- and they did pick up on -- was the solar fee. And to Gerard's point, the differential in the class increases. But we were pleased with both articles. We thought they were very fact-based and showed a good understanding. The reporters that work on our industry are pretty knowledgeable of what's going on in the case.

Mike Weinstein - *UBS - Analyst*

Mike Weinstein, UBS. Just on the $6 charge, I just want to make sure I understand that. That's -- you are saying that 70% -- you intend to recover 70% of fixed costs through demand charges and other fixed charges, ultimately.

And the $6 per kilowatt month for new residential Drilling -- is that actually going to be part of that 70%, or is this simply a reallocation that goes to make the overall recovery of revenues from customers more fair by reallocating to customer classes that are non-DG?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Do you want to take that, Gerard?

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

I will. Thanks, Mike. So if you look at the current system, where a DG customer pays a $5 per month customer charge, and they largely offset all of their energy consumption with the production of their DG system, they are avoiding most of their avoided costs -- or most of the fixed costs for which they would be responsible.

What we are doing here is we are proposing a first step. So they will pay a fixed charge per month of $6 times the amount of installed capacity. So it's not a reallocation within the class. We are just making sure that the DG customers begin to pay a fair share of their fixed cost responsibility and also to improve the price signal when they are considering the installation of DG systems.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

These are what I would call small steps towards moving to better fixed cost recovery. I think it was Ohio that had a docket and looked on just moving to straight fixed variable. That's pretty dramatic, because as Gerard said, 90% of the residential customer costs, for example, are fixed. So we're just trying to move some steps to recovering more of our fixed costs through fixed charges. That's how I think about it.

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

I was comparing it to Simple West.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Yes.

Andy Levi - *Avon Capital - Analyst*

Just on the decoupling. Just so I understand the mechanism -- so would it be -- I understand it's trued up once a year, but in that time frame -- I don't know. Let's just say sales were down 3% in the year. Is there like a deferral? Or can you just explain how that would work on a monthly or quarterly basis until you get the true-up at the end of the year?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Sure. Gerard?

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

There will be -- so we will track load. I don't remember if we'll be tracking it monthly or quarterly, but at least quarterly we will book a deferral based on where energy sales are relative to what was projected.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

The nice thing about it that we wanted to -- that I think the attractive point is: we'll never over-earn. So if we overcollect, we refund it to the customers. If we undercollect, then we make it up. But that way we can say, hey, we're not going to over-earn. And that's pretty attractive to the regulator and customers.

Paul Patterson - *Glenrock Associates - Analyst*

Paul Patterson, Glenrock Associates. Just on the energy efficiency outlook here on page 18, you mention a 5% decrease from 2010 to 2016. How should we think about the projected sales growth over time -- both through 2015, but also the next two years after that? Just what are your thoughts about what that's going to look like, number one.

Number two: how much of this energy efficiency is applicable in your estimation to the utility programs versus just what's going on? That sort of question has come up in a few places.

And then, just in general, how should we think about elasticity? Just in general, if you could just sort of put that into those two things, that's the first question I have.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

And I'll answer the last part of that question. I'm going to have Gerard talk about the other two pieces of it.

We all have price elasticity studies, and it's kind of hard to tell how much is price elasticity and how much is energy efficiency. Our rates are low enough that we haven't seen a lot of price elasticity. Most of what we're seeing is the efficiency on the appliance or the efficiency -- or our energy efficiency programs, which is real consistent with what other utilities are seeing when we look at their use-per-customer growth. Most of them are just seeing customer growth to overcome that.

So I don't think we are to the point where we're seeing price elasticity. I know one of the rating agencies put out a study that said once the bill gets to be about 3% of household income, it gets to be problematic. We are at 2.13%, and we are on that lower side. So we haven't bumped up against that piece. And, Gerard, you want to talk about energy efficiency and forecasting?

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

I do. I do. Most of the energy efficiency savings or reduction in our energy sales is attributable to our programs. So, for instance, if you look at the annual report prepared by the independent evaluator, on top of our sales or our energy efficiency -- or of the energy efficiency results, they estimate that probably between 25% and 30% is attributable to free ridership, which is energy efficiency that would have occurred anyway.

Paul Patterson - *Glenrock Associates - Analyst*

What is the projected sales growth that you guys have for 2015 through -- and post-2015? And when you say the 25% to 30%, what -- just -- I mean, I understand free ridership argument. But what -- of the total amount of savings that you're seeing or energy efficiency that you are seeing, how much -- if you could just put it in terms of -- is actually attributable to your -- so as opposed to the amount that is free ridership. There might be something out there that's got nothing to do with the program, right?

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

So let me give you a really good example. If you look at our residential use per customer, it's about 590 kilowatt hours per month. When we add back the measured and verified savings, the cumulative effect of our energy efficiency programs, our use per customer would be closer to 630 kilowatt hours per month. So you can see it's having a dramatic effect.

Paul Patterson - *Glenrock Associates - Analyst*

Okay.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

It's sometimes just kind of hard to pull out what's appliance standards and what's others. But I think the other part of your question was -- Gerard, talk about Brattle's testimony in the case about our forward-looking -- after -- 2016-plus load forecast.

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

And so if you look at our load forecast, we are expecting the decline through 2016. We're expecting it will pick up a little bit after that. A lot will depend, of course, on the economy in New Mexico.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

It does show use per customer going down, and it shows some pickup in customer growth. But it doesn't show a huge recovery.

Kit Konolige - *Bloomberg intelligence - Analyst*

Kit Konolige, Bloomberg Intelligence. Again, just -- not to beat it too much, but obviously growth is an important factor. You say -- so with energy efficiency, the residential use per customer declined 5% over this 2010 to 2016 period you're anticipating.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Right.

Kit Konolige - *Bloomberg intelligence - Analyst*

And I think over that period, you're also going back from this rate case -- I guess, 2010 commercial customers increased significantly, large power significantly also. And yet, you know, it looks like the revenue deficiency of $22 million is not all that large. So can you discuss a little bit what's going -- obviously, there's residential customer growth. So that -- the per-customer decrease is larger than the revenue decrease associated with residential. Maybe you can just give us an idea of, say, from 2010 to the present, or 2010 to 2016, as you anticipate how much revenue absent a rate case would you expect to lose due to economic inefficiency?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

So you want us to take that $22 million and break down what's in there?

Kit Konolige - *Bloomberg intelligence - Analyst*

Yes, that would be helpful. Sure. Thank you.

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

I'm not sure that I can do that today, unfortunately. I've been focusing on a lot of aspects of the rate case. I have been spending a lot of time on it. I have not dug into tearing it apart that way.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

So we'll get you a detailed answer. My high-level answer is that we are seeing a pickup. We got some industrial customer growth coming back in that number, because we've got a couple of customers that have announced; and you are seeing some of the commercial growth that we have talked about with the 1,000 jobs.

So we'll get you the detailed answer. But we are seeing some pickup in customer growth in there and then in industrial customers. But we'll do a detailed reconciliation for you. Okay, one more before lunch. Paul?

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Pat, you said you won't be able to over- or underearn under this decoupling mechanism. That's on a weather-adjusted basis?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Right. Well, we're not weather-adjusting. And we'll also get customer growth.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Okay, so if you have a hot summer, you could overearn.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Correct.

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

No.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

No?

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

No, I'm sorry, Pat.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Okay, correct me -- that's good.

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

We will not weather-normalize. And so that means -- let's say we have a blazing hot summer, and we get more revenue from weather than we otherwise would. We won't adjust the use per customer. We won't weather-normalize it. So basically, that will offset any fixed cost recovery problems related to energy efficiency.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

And then where are you on, I guess, the rate of deployment of energy efficiency? Have we picked the low-hanging fruit, and we're getting diminishing returns here? Or is there still some potential for that rate to increase still?

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

I think that we have harvested a lot of the low-hanging fruit. If you look at a lot of our savings, they have been -- in the residential market they've been driven by lighting. Those are really easy.

Increasingly, we're going to be getting savings from the commercial market. Those are usually a little more involved. We are required by statute in New Mexico to spend 3% on energy efficiency programs. So we continue to project increasing energy efficiency, but it will not be -- we have harvested the low-hanging fruit.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

It's 3% of what?

Gerard Ortiz - *PNM Resources, Inc. - VP, PNM Regulatory Affairs*

Of revenue.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Revenues.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Total revenues?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Yes, yes. And Paul, I'm sorry. This weather normalization is going to be the death of me. It makes me crazy.

But the other thing is when we filed our comments on 111(d), the Clean Power Plan, one of the things we commented on was energy efficiency, because the Clean Power Plan projects huge amount of energy efficiency. And most utilities have gotten a lot of, A, of the low-hanging fruit; and then, B, if you look at our demographics, a lot of it doesn't pay out. And then when you start getting to some -- we don't have the industrial load or the commercial load -- the large commercial load that a lot of states have. And so it's going to be harder for us to get savings. So that's one of the issues we raised with the EPA and the Clean Power Plan.

(Break)

Jimmie Blotter - *PNM Resources, Inc. - Director, Investor Relations*

Let me now welcome Chuck Eldred, our CFO, to go through the financial portion of our presentation.

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

Good afternoon. As you know, we like to use scripts to keep the record clear as to what we are talking about. A couple of years ago, when I was up here doing this -- I have to give full disclosure here -- I got all the way through my script, but there was no last page. So I lost the last page. And so

I can assure you today that Pat has an extra copy. Every one of the PNM people have extra copies and they are all worried about whether or not I have my full script here.

So with that in mind, let's get through the earnings guidance for 2015 and also the earnings power that we have provided in the presentation today. We have covered a lot of information so far. Pat talked about the company vision to create enduring value to customers, communities, and shareholders. Gerard has walked us through the details of the general rate case we just filed. And Ron talked about how we are working with our various stakeholders.

So let's go through some detail in how we are investing in the business and what that means for earnings, both for 2015 guidance and potential growth out to 2019. So moving to slide 34, we have extended our five-year capital forecast to include 2019. We expect to spend $2.2 billion on capital between 2015 and 2019.

When you include the $155 million rate base addition from Palo Verde 3, which as you know is part of the BART settlement, that results in rate base growth of 5% to 7% at both PNM and TNMP. And, as you can see, we will continue to maintain solid rate base growth. So let's talk about the ongoing earnings guidance for next year, on slide 35.

Our consolidated ongoing EPS guidance range for this year is $1.44 to $1.51, with the midpoint of $1.47. For 2015, our guidance range is $1.50 to $1.62. This brings our midpoint to $1.56, representing earnings growth of 6% compared to 2014.

We expect the segments TO breakdown as follows: PNM, $1.14 to $1.21; TNMP, $0.45 to $0.48; and corporate and other, negative $0.09 to negative $0.07. Also want to note that we provide a quarterly earnings distribution, which is included in the appendix on page 51. We expect to see distribution as similar to 2014, which is 73% of the earnings coming in during the second and third quarters.

Now, turning to slide 36, let's look at the economic conditions in New Mexico. We are seeing positive employment growth rates in both the state and the Albuquerque area. For example, a textile company that uses recycled materials to make their clothing is coming to Belen, just south of Albuquerque, representing about 300 jobs.

We also have an energy infrastructure pipeline company, whose demand will be increasing considerably. And these are just a couple examples that add up to more than 1000 jobs that will be coming to our service territory.

Although we continue to see signs of the economy stabilizing and even hints of growth in some areas, we are not seeing anything strong enough that would cause us to predict more than a slight improvement, if any, to load in 2015. As a result, we are intentionally forecasting a conservative weather-normalized load range of flat to down 2% for 2015 compared to 2014.

We do expect modest customer growth to continue 0.5%. But as Gerard indicated earlier, this level of customer growth is not enough to offset decreased use per customer.

Now looking at slide 37, let's look at the detail for PNM. We have a long list of drivers for PNM's year-over-year numbers. First is the Palo Verde Unit 1 half-price lease payments, which are a $16.5 million savings, or $0.13 improvement, compared to 2014.

Next on this list is weather. To bring 2015 back to normal, we expect to see a $0.04 improvement compared to 2014. We will be spending more than $420 million in capital during 2015 and we expect the associated AFUDC to be $0.04 higher.

Refined coal is a new driver. We have entered into an IRS Section 45 arrangement where we receive a licensing fee for the treatment of coal at San Juan to reduce emissions. The result of this arrangement represents $0.02 to $0.03 of earnings in 2015. In our fuel clause filing that we made this spring, the commission granted us approval to keep the benefit of this arrangement through 2016.

In the second quarter of 2014, we recorded a tax expense at PNM for an IRS review that covered 2003 through 2008. The liability for this item had been recorded at the holding company, so there was an offset between the two segments, this concludes in 2015. We will see the year-over-year impact of this, which will be PNM to be up $0.02, and corporate and other to be down by the same amount.

Last year, we gave guidance for the Palo Verde Nuclear Decommissioning Trust gains. As the market continues to perform well, we will plan to capture gains as we move the asset allocation of the trust for Unit 3, to a more conservative mix in preparation of this unit to be dedicated to serving the New Mexico jurisdiction. We expect Nuclear Decommissioning Trust gains may add as much as $0.02 to earnings.

We will have a couple of other small positive drivers. As you are aware, we finalized the Delta purchase and renamed it Rio Bravo in July of 2014. We expect earnings to be improved by $0.01. Our Palo Verde Unit 3 market sales are 90% hedged for 2015 at an average price of $38, to $37 price in 2014. This will result in about a $0.01 pickup in 2015.

Now, moving on to load, our conservative guidance of flat to down 2% represents a range of zero to down $0.10. We expect to have increased outage expenses of $0.06. This is due to a 75-day outage expected at Four Corners during the fourth quarter for extensive work on Unit 5 as well as outages for the installation of SNCR's equipment at San Juan. You can find the details of the outage schedule in the appendix on page 55.

Of course additional depreciation and property tax of $0.04 to $0.05 is expected for 2015 capital. We anticipate having higher O&M spending in 2015 at PNM of $0.02 to $0.04, which is approximately 1% to 2% of our non-outage direct O&M cost. Of course you are aware the expiration of the Gallup FERC generation contract will represent $0.03 in 2015 compared to 2014.

In the rate case filing we just made, we are proposing to reallocate the $24 million rate base associated with this to the New Mexico retail jurisdiction.

We plan to issue about $200 million of long-term debt, likely in the fourth quarter at PNM. As a result, we should have additional interest expense of $0.02 to $0.03, based on our interest rate assumptions of about $0.05. For TNMP, let's move to slide 38.

The economy in our service territory in Texas continues to be robust. Employment growth in the state, as well as the Houston and Dallas areas, are very strong. As a result, we expect to see low growth of 2% to 3% and customer growth of 1%.

Now, turning to slide 39 for some detailed drivers at TNMP, we expect to continue making two TCOS filings per year and expect those to be $0.05 to $0.07 improvement over 2014. We expect rates to be effective in April and October for these filings. For the 2% to 3% load forecast, we would expect earnings to increase by $0.02 to $0.03.

Depreciation and property tax expense should be higher because of both our capital spending program as well as some higher property tax rates in Texas. We expect these expenses to be up between $0.05 and $0.06 as compared to 2014.

We also expect to issue about $60 million of long-term debt at TNMP in the fourth quarter. Therefore, we expect to have higher interest expense in 2015 of about $0.01. We also expect to see higher O&M at TNMP, which, again, would be about another $0.01.

Turning to slide 40, now let's just step back for a minute. And, most of you recall the forecast we made in 2012 as we embarked on our current strategy. We pledged a 10% to 13% total return and, as you can see, off the 2011 rate base, we are delivering this. This has been a focused effort of our entire team, working to not only improve earnings growth, earn our allowed return, and improve operation, but also improve our regulatory relationships, improve the focus of customers and increase transparency with debt and equity investors.

On the next slide, our success that all these elements allow us to see horizon of continued 7% to 9% ongoing earnings growth through 2019. All of our focus areas over the last several years remain. What is different or enhanced is our confidence in our ability to deliver solid total returns and the options or levers we have to ensure our success.

We certainly have the uncertainty of our rate case, or even two or three rate cases in this timeframe. However, we believe, over the last five years, through 2019, we have an opportunity to provide an increasing value proposition beyond what we have shown today for customers, regulators, and investors alike, based on the high quality and valuable service to our customers and all of our stakeholders.

The earnings power slide for 2016 and a new one for 2018 are shown in the appendix. But I would encourage you to focus on our ability to continue to deliver above-average earnings growth over the next five years.

Now turning to slide 42. We continually focus on our liquidity and capital structure to ensure that we are financing the business appropriately. We utilize term loans of different maturities to reduce interest expense and diversify funding sources. This allows us to cost-effectively fund investments in preserving liquidity capacity over our revolvers.

As we look at 2015, specifically, we will pay off the holding company $119 million of the 9.25% debt in May. We will use short-term debt initially to fund this and ultimately pay it off with dividends from the utilities. This should result in an EPS pickup of $0.03 to $0.04 in 2015.

I mentioned earlier that we do expect to issue some long-term debt at both PNM and TNMP in the fourth quarter. PNM will be approximately $200 million and TNMP at $60 million. Now, moving to slide 43.

Our strong earnings have supported continued dividend increases. As you know, last week we raised the dividend to 8.1% to an indicated annual rate of $0.80. Going forward, we expect to continue seeing above average industry growth in the dividend with the Board's next review in December 2015. We expect to stay in the lower portion of the 50% to 60% payout ratio range for the next few years.

Before I ask Pat to come up, I want to make you aware of two retirements from my finance team. It is bittersweet that I announce two of the most seasoned and instrumental finance officers, Terry Horn, who is here today, our Vice President and Treasurer, and Tom Sategna, our Vice President and Corporate Controller, have announced their plans to retire. Effective March 31, Terry will step down from his position after 30 years with the Company.

As you know, Terry has been a constant face for PNM Resources to The Street since 1985. Terry will hand the reins to our succeeding Treasurer, Lisa Eden, who is also here today. Many of you know Lisa from her prior service as Assistant Treasurer and Director, Investor Relations for PNM Resources. Lisa is currently Executive Director, Financial Planning and Business Analysis, and she will bring these duties into the new role.

She has been with the Company since 2001 and has worked her way up through the CFO organization, taking on and thriving positions of increasing responsibility. Lisa also has a CFA designation. I know Treasury will be in expert in hands under her leadership.

Also effective March 31, 2015, our Corporate Controller and Chief Accounting Officer, Tom Sategna, will step down from his position. Tom has been with the Company for 38 years. Probably some of you are really, really young in that timeframe. Tom will turn the shop over to Don Tarry, who is currently Vice President, Customer Service and Chief Information Officer.

Don will retain his responsibility as Chief Investment Officer in addition to picking up the Corporate Controller's role. Don has risen to meet numerous challenges in his 18-year career at PNM Resources, including multiple leadership positions in the CFO organization. He has an active CPA license and is well-qualified for this new challenge. I know he will bring the same thoughtfulness and determination to this role as he has in previous positions.

We have carefully planned for this succession, knowing that both Tom and Terry, having given so much effort and energy and expertise to our Company for so many years, would eventually retire. Don and Lisa have both had broad and deep organizational experience that prepares them well for their new leadership responsibilities.

With two such critical leadership successions occurring simultaneously, the importance of consistency is underscored. Both Tom and Terry will remain with the Company in an advisory role for the duration of 2015 to help ensure a positive transition for their successors. And now I will turn it back over to Pat.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Thanks, Chuck. I would also like to express my gratitude to both Terry and Tom. They are going to move on to the next chapter in their lives. And they have provided so much leadership and guidance over the years that it is not going to be the same without them at PNM Resources.

But, change is an opportunity for an organization and for its employees. So like Chuck, I am very pleased to congratulate Lisa Eden and Don Tarry on their increased responsibilities. We're fortunate to have that kind of talent at PNM Resources, so they can pick up where Tom and Terry left off. And I know they are going to have their own strengths and their own styles to bring to the group, and lead those groups to the same success that they achieved under Tom and Terry.

Now, with this critical leadership change happening in our finance organization, I am pleased to tell you that our CFO, Chuck Eldred, has committed to a retention agreement that confirms his senior leadership of the Company throughout 2017 -- through 2017. So Chuck's willingness to remain at the helm of the CFO organization through 2017 (multiple speakers) gives us greater confidence as we managed all the continued changes that are going on in our industry, and signals to our investors that the succession will be seamless.

You will all see an 8-K about the organizational changes coming. But we wanted to let you know about them today.

If we turn to slide 45, to wrap up the presentation, we have explained our strategy and we have provided the details of how we are going to achieve our goals. We are in a very strong position going forward.

So if you look at slide 46, the question is, what does all that mean? I think it means that our continued earnings and dividend growth, and the momentum created by effectively managing the business, make PNM Resources a very attractive investment.

We are on track to meet that 10% to 13% total return by 2016. The compound annual growth for our rate base is expected to be 5% to 7% through 2019. And, as we come out of this period of heavy capital spending, there are a number of potential investments beyond 2018. Those could include increases to the amount of renewable generation in our portfolio beyond what we already have, investment to update and expand our transmission infrastructure, improvements to our system to maintain reliability and secure infrastructure, and also purchasing the remaining 144 megawatts of PNM leases that are at the Palo Verde nuclear generating station.

We also anticipate continuing to deliver above average dividend growth. And, of course, there is the option to increase the targeted payout ratio as we go forward post-2018. So with that, thank you for your attention and we will open it up questions. And please remember to state your name into the microphone for all of those who are listening on the webcast. State your name. Thank you.

Paul Fremont - *Jefferies & Co. - Analyst*

Paul Fremont with Jefferies. My question is for Chuck. If I look at the earnings potential slide for 2016 and 2018 and just compare the rate base numbers, the rate base in 2018 looks to be actually lower than the rate base in 2016, if I add in $165 million for Palo Verde 3. So I was just wondering what the driver is of rate base actually going down over that two-year period. And then are those same pressures going to be there beyond 2018 in terms of how we should think about rate base?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

Yes. We talked briefly about this off-line so I appreciate, Paul, bringing the question up. Checking the numbers, it clearly looks like the ADIT has increased -- decreased -- increased, rather, after 2014, probably because of bonus depreciation. So we are seeing about $100 million difference in ADIT. That, I think, is probably the biggest driver that would be the result of the question you are asking. We will go back and double check the numbers, but that looks like -- from just a quick review, that is what the reconcilement would lead us to.

Paul Fremont - *Jefferies & Co. - Analyst*

Does that also sort of weigh on rate base numbers going beyond 2018 as well?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

Well, beyond 2018, really, and beyond 2019, we really don't have that information and we are not providing that now. There are other opportunities for us to invest in the business and think about beyond 2019. Pat will point out a couple in her closing remarks. But at this point, I think we just focus on the growth, the rate base that we have through 2018, and continue to look to receive average -- above average earnings growth as a result of that.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

There's lots of things out there after 2018, as we alluded to, the transmission. Many of you know, we have smart meters in Texas. We don't have them yet in New Mexico. So there is lots of opportunities out there. And Paul, I have got to tell you, you have the fastest reflex of any analyst I have ever seen. When that hand goes up there, Paul is like (laughter).

Paul Fremont - *Jefferies & Co. - Analyst*

One other sort of follow-up question has to do with Palo Verde 3 nuclear decommissioning trust gains. It looks like next year, the absolute number is $12 million to $15 million. Where would you expect to end 2014 in terms of nuclear decommissioning trust gains?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

I think we said last year and guidance, maybe zero to $0.02 for 2014. And so that would probably put us around $0.08 in total for 2014; $0.06 to $0.08, yes.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Jimmie, you can pick the next one.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Ali Agha from SunTrust. Two different questions. One, first, for Chuck -- Chuck, can you remind us again the difference between the earnings power as you describe it in your slide, and then the actual earnings CAGR that you have shown us 2014 through 2019? Because the earnings power would imply a higher earnings growth rate than what your 2014 through 2019 numbers are showing. So what is the difference in terms of definition (multiple speakers)?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

The math is pretty straightforward in the earnings power. Looking at rate base and cap structure and a 10% return. So you can kind of go through and do the math and see what the earnings potential of the business is.

The one way I would probably easily explain that, if you think about what we filed the Bart case, we filed 100% recovery of 2500 for Palo Verde 3. We filed 100% recovery on depreciated costs. That would be earnings potential. That would be what you could maximize in the business, that being an example of earnings potential.

But, obviously, we settled and went through a process, given all the different stakeholders and interest of different parties involved, with the stipulation to reach an agreement that we thought really was reflective of the earnings growth for shareholders that we have anticipated since 2012. So I would say, go back and look at the earnings growth that we have in the slides, and that shows you where we continue to have that objective to grow above average relative to other utilities. But the earnings potential certainly is there in the business. It is just a question of how we get to that above-average growth.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

And that 2019, that is a rate base CAGR. It wasn't an earnings CAGR. It was a rate base CAGR. So that is --

---

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

7 to 9 was EPS.

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

That's right.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Yes. And 5% to 7% was rate base.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Pat, a question for you. We have seen ongoing consolidation in the sector, particularly for smaller cap utilities per the recent announcement. Your neck of the woods, there has been consolidation in that geographic footprint. Maybe just remind us, strategically, how do you look at that as a potential ongoing evolution of PNM? And where would you fit in, given the changes that you are seeing in the industry?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

And what we see, Ali, is, I think our Board has shown that it is very shareholder-friendly in the strategic moves it has made over the past few years, that have created great value for shareholders. We have what we believe is a very attractive plan to grow earnings and to grow dividends and bring value to our shareholders. If someone sees the value in that plan and is willing to recognize the value and pay an appropriate premium, our Board of Directors would be very open to listening to that.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

But, strategically, you don't think there is a need for you to expand your geographic footprint beyond your current territory.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

If you look at the value we are able to deliver, we think it is great. Now we have always said Texas is a growing service territory. And if we found an opportunity to pick up little bits and pieces in Texas, we would look at those, because it is in a very attractive regulatory environment. But we think the plan we have does a very good job of delivering value.

Ed Mashkovich - *MetLife - Analyst*

Ed Mashkovich, MetLife. Regarding the load growth, earlier in the year you guys gave a flat to down 1% projection for next year. What caused you to go out that extra percent wider?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

We actually changed guidance during the year and extended that range to be 2% to 3% for PNM. So we started out with a more opportunistic view at the beginning of the year view last year. Then, as we went through the shoulder months and saw more of a degradation of load, we changed guidance and really reflected a degradation of 2% to 3%.

So now we are actually coming back. Instead of negative 2% to negative 3%, it is coming to 0% to a negative 2%, with a conservative view that we continue to see signs of an improving and slight improvement, the case that was filed, as Gerard had pointed out, about a 0.3% improvement over the load forecast. So we will continue to see some slight improvements, but we want to be conservative and reflecting the larger range as we go through the process.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Yes. And we never gave a 2015 load forecast until now. We sort of did drivers on load, but the 2014 we did, and we said down 0% to 3%, and we are down 2% now. And then, so we are saying 0% to 2%. And, as Chuck pointed out, we try to be conservative when we do our guidance on our load growth.

And can I go back to slide 18 for a minute? Because I know there was a little confusion on this slide. This is residential use for customer and it is with energy efficiency, or would have been up to without and with down 5%. This doesn't say that the load -- the volume has gone down 5% in our forecast. This is just residential use per customer. So that gets offset by some customer growth and some large customers coming back, which I think it is why it is only $22 million in the rate case that we are looking for, for load.

Ed Mashkovich - *MetLife - Analyst*

And just a second; regarding ratings -- credit ratings, I know you guys have done a great job getting to mid-triple. And in August, I believe, at the Goldman conference you stated that there is no need to really go to single A, just where rates are, but they theoretically should increase starting next year. What are your views on that and would there be a push to go to single A or even high triple?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

Well, not in the near horizon; I think, at this point, we want to keep the solid investment-grade ratings. We are on positive outlook for both ratings agencies right now, so we might receive some potential improvement in that solid BBB range that we currently are at. But for the time being, for the next few years, I would just assume that we stay in that BBB investment-grade range.

Paul Patterson - *Glenrock Associates - Analyst*

Paul Patterson, Glenrock Associates. I just wanted to follow up on Ali Agha's question on M&A. You mentioned that if the potential purchaser saw the value in your Company and was willing to pay an adequate premium above what you felt -- which the Board would feel you had for premium, that there would be no problem in terms of selling the Company, if I understood you correctly. A, did I understand that correctly?

And then, B, what do you think has been sort of the impediment in terms of realizing the value? Because you guys outline a pretty good story here. How should we think about where the stock is trading?

And when you see some of these purchases out there, they seem really -- they seem pretty strong. High premiums are out there, so I am just wondering how we think about, when we look at the value proposition which you guys outlined very well, I think, today, how should we think about that in terms of the context, in terms of unlocking value for the shareholder?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Yes. And I will talk about the first part of the question in terms of -- and then I am going to have Chuck talk about a little bit where the stock prices and the value proposition and attraction. I said the Board would consider it. And, like I said, they are open to being very shareholder friendly.

You also have to make sure any kind of transaction is executable and I think you all have seen ones that have been done very well in terms of providing benefits for customers and communities and shareholders. And you have seen them that have not done as well. So I think it is -- along with a number, it is the other conditions that come attached with that, that make a transaction executable.

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

Yes, I really don't have a lot to add. We just want to really focus in on the plan and really deliver the value that we see as executable in the valuation that you are seeing through the forecast. And that is our focus, and it will continue to be our focus.

Brian Russo - *Ladenburg Thalmann & Company Inc. - Analyst*

Brian Russo, Ladenburg Thalmann. Chuck, could you maybe give us a sense of, on average, what kind of short-term debt balance you all carry on your books with any given year through this investment cycle?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

At the holding company, you could probably see on average, it could be as high as $250 million, but probably in the range of $200 million to $250 million while we go through the extensive capital program. And then as we get the rate cases in place in 2016 and 2018, we will begin to pay down that short-term debt at the holding company.

We tend to not go much over than 12% -- 12% to 15% of total capitalization. So we are well within the levels of parameters, if you will, that the rating agencies accept and understand when you consolidate the debt, or you look at the debt at each of the operating subsidiaries.

Andy Levi - *Avon Capital - Analyst*

Andy Levi, Avon Capital. Just on TNMP, I guess I have the impression that as you got out to 2018 or kind of each year, that the growth rate would be higher than what you are showing for 2018. Can you just go over some of the reasons why? Because I guess you are looking at, what, about a $0.05 growth rate off of 2016, if I'm not mistaken. And that is really not much off of (multiple speakers)

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

So you are on the earnings (multiple speakers) slide, Andy?

Andy Levi - *Avon Capital - Analyst*

50, yes. I think it is page 50, just if we could go over that. I guess I thought it would be higher.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Do you want to put page 50 up?

Andy Levi - *Avon Capital - Analyst*

If I understand it correctly.

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

I think we talked about this before. We are investing about 60% of the capital growth at TNMP and Transmission. But that is because beginning to slowly flip a little bit to be a stronger investment in the distribution side of the business. But, the distribution right now is really benefiting from the load growth. That is when we don't go back for a rate case.

But we are looking to follow file a rate case in 2017 to TNMP, which would be began to rebalance and adjust the cap structure relative to the rate base for TNMP on the distribution side. And also think about as property taxes go up and O&M expenses go up, you don't get recovery of that like you do until you file a rate case. And so, really, the TCOS is really more of the capital investment and the recovery of that investment.

DCOS is another rate mechanism that is really reflective of your capital investment, but you are not really asking for a rate increase because of load being so aggressive and positive in that area. But, the growth is really going to start showing more signs of that in 2019 as you begin to work away out of the degradation that we see, relative to the drag in the returns on distribution side of the business, and file for rate case and begin to true that up.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Because you filed in 2017, you wouldn't see it really in 2018.

Andy Levi - *Avon Capital - Analyst*

Okay. So 2018 has no rate increase in it, but you don't expect there to be a rate increase in 2018? (multiple speakers)

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

It is just a partial amount. You're only picking up a small percentage of it and then you begin to see the earnings pick up in 2019.

Andy Levi - *Avon Capital - Analyst*

I guess I thought with the TCOS and DCOS of the sales growth, the growth rate would be higher, but I guess (multiple speakers).

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Well, if you look at the DCOS, you can't file for a DCOS if you are earning your return or a little better, because it has got an earnings test in it. So actually, no distribution utility in Texas has used the DCOS mechanism yet. And so -- plus, we have seen a lot of growth, but what you are getting is the stuff that doesn't go into the TCOS that we need to pick up, and we have done a great job of managing costs. But, at some point in time, you need to do that.

The other thing that is happening in Texas, I think you have seen the ROEs that have been awarded have been sub-10s. And so you would like to wait for interest rates to get a little bit better. And then, at some point in time, we think the growth in Texas levels out a little bit, too, because they are doing very well and at some point there growth is going to go to a little normal. So that is why you don't see the rate increase being asked for until 2017.

Andy Levi - *Avon Capital - Analyst*

Okay. And then, just on your comment on Texas in general and add-ons, can you just kind of talk a little bit more about that, what the definition of add-ons are?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Well, you all have seen our service territory in Texas. And I like to describe it as a small child through paint against the map of Texas, because it is so geographically dispersed. So we are surrounded by little municipalities, little co-ops.

If any of them decided that they would want to sell, there is a lot of expenses coming along with cyber security and other things that they are going to have to be mindful of, we would be very interested in that if anybody wanted to get rid of some of their rural parts of their service territory. We would like that, because we do a very good job of managing really good -- a dispersed service territory with lots of small areas in it. You won't see us in the Encore bidding, promise you.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Paul Ridzon. Just as you go to 2018, the corporate and other costs shrink. Is that just paying down the debt -- the short-term debt or is there other structural things in their?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

Yes, exactly right. That is really reflective of beginning to see the short-term debt coming down.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

And, in these projections, are you assuming you are earning your authorized ROE or still having a little bit of drag there?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

And you are talking about which corporate -- you were mentioning corporate and other (multiple speakers).

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Overall.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Overall.

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

Overall, you will see some regulatory lag that just the timing between rate cases. But it is reflective of strong returns for TNMP that continue until that 2000 timeframe, and then you start to see the regulatory lag kick in. And then, 2000 -- and then, of course, with PNM, solid returns after the rate cases. But, again, we still continue to make investments and we will see some regulatory lag at PNM possibly as well.

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

And, in the really small footnotes that I can't read because I don't have my glasses on, the FERC, we are still only assuming 5% to 6% in FERC. Again, some of those generation contracts are working their way back up. And then PNM is -- the 10% currently authorized is what we assume.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

I think the 2016 outlook improved a little bit from the last time you had a slide deck. Can you just talk about the drivers there?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

Sure. Chuck?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

The 2016 is really driven by the fact that we have a higher rate base that is filed in this rate case. So we potentially -- before we had earnings potential of $1.80 to $1.89, so that is a pickup of $0.09, and $0.07 of that comes from PNM. And it is really just more of what I commented on earlier, adjustment to a ADIT and some of the more active projections of the forward test year in the rate base balance as we begin to tighten those projections down.

There is a little bit of pick up in working capital that tied to some of the agreement that we have with the participants in purchasing some additional coal inventory that actually provides some value in our fuel clause for existing customers, so just a number of slight tweaks. And that -- basically a higher rate base of about $160 million is providing some additional earnings power, reflected in the PNM, and change in the earnings potential power slide we showed previously.

And I think I have told you, the cost of service rates -- the items that are not in rates, the refined coal, so you see a positive $0.02 for 2015. That is reflective of that.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Are those DTE plants (multiple speakers)

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

It is similar to DTE's.

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

Yes. It is similar, but we don't take any tax risk. We really structure it so the third party involved with that is really pursuing the tax benefits that are provided in that Section 45. What we do is get a licensing fee, which is really a percentage of their tax benefits paid to us. But we take no tax risks whatsoever.

Anthony Crowdell - *Jefferies & Company - Analyst*

Anthony Crowdell, Jefferies. Just a housekeeping question on slide 43. You say you expect above industry average dividend growth. What do you guys assume is the industry average growth rate for dividends?

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

What do you think it is?

Anthony Crowdell - *Jefferies & Company - Analyst*

10%.

Chuck Eldred - *PNM Resources, Inc. - EVP and CFO*

(laughter) No, that is too high. We are seeing probably in that 4% to 5% type of increase. It seems reasonable. We know we are slightly below on the payout ratio relative to our peers that we see as around averaging 63%. But, as long as we have the earnings growth and we are at the low-end of the payout ratio range, we are comfortable getting strong dividend in that growth going forward with a high potential of more dividend growth down the road.

Chris Kovacs - *Levin Capital Strategies - Analyst*

Chris Kovacs, Levin Capital. Can you just give us a sense of how much of the load and load growth at TNMP is tied to oil and gas?

Pat Vincent-Collawn - *PNM Resources, Inc. - Chairman, President, CEO*

If you look at the breakout at our service territory, about half of our business -- our load comes from right around the Houston Ship Channel, down there. About 41% is sort of north of Dallas and then about 9% is over in the Pecos/Fort Stockton area. So theoretically, the stuff around north end Dallas is really not tied into the oil business. The other stuff is.

We are not as worried about the commodity price decrease, because what we are seeing is the existing refiners are still doing really well and they are growing. You're getting some slowdown in new wells and fracking, because of where the prices are. So it may take a little bit off, which is why we are a little bit more conservative in our 2015 forecast. I think we took it down a percentage point.

So we are factoring that in a little bit, but also a lot of what goes on in the Houston Ship Channel, there is chemical companies. And they pump out a lot more when energy prices are low. So that is another offset for us is that chemical piece, because I think about half of the economy in Texas -- the GDP is tied to the oil and gas business and the indirects around it.

So the economy is oil and gas dependent, but there is a lot of other stuff going on there, too. Actually, oil and gas is having a bigger impact on New Mexico in terms of the budget, because we are very dependent on severance tax revenues. And so it will make for an interesting legislative session this year because the new money the state is getting is declining by the day.

Any other questions? Well, with that, then, thank you, everyone, for coming. We will be around for a while if anyone has questions. We appreciate your interest in PNM Resources and your attention. Thank you. And, for those of you on the webcast, thank you very much.